Operator: Greetings, and welcome to Helios Technologies' Third Quarter 2019 Financial Results Conference Call. At this time, all participants are in listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note that this conference is being recorded.

I now turn the conference over to your host, Karen Howard, Investor Relations for Helios Technologies. You may begin.

Karen L. Howard: Thank you, Zaid, and good morning, everyone. Welcome to the Helios Technologies' third quarter and year-to-date 2019 financial results conference call. On the line with me are Wolfgang Dangel, our President and Chief Executive Officer; and Tricia Fulton, our Chief Financial Officer.

Wolfgang and Tricia will be reviewing the results that were published in the press release distributed after yesterday's market close. If you do not have that release, it's available on our website at www.heliostechnologies.com. You will also find slides there that will accompany our discussions today.

If you look through the slide deck on **Slide 2**, you'll find our Safe Harbor Statement. As you may be aware, we will make some forward-looking statements during this presentation and also during the Q&A. These statements apply to future events that are subject to risks and uncertainties, as well as other factors that could cause actual results to differ materially from where we are today. These risks and uncertainties and other factors are provided in the earnings release, as well as in other documents filed by the company with the Securities and Exchange Commission. These documents can be found on our website or at www.sec.gov.

I also want to point out that during today's call, we will discuss some non-GAAP financial measures, which we believe are useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliations of comparable GAAP to non-GAAP measures in the tables that accompany today's earnings release as well in as the slides.

Wolfgang will get started with summarizing the third quarter of 2019. Tricia will go through the details of our financial results for the quarter and year-to-date period. And then, we'll turn it back to Wolfgang for his perspective on our outlook and 2019 guidance, before we open up the lines for questions and answers.

And with that, it's now my pleasure to introduce Wolfgang.

Wolfgang H. Dangel: Thank you, Karen. Good morning, everyone.

I will start on **Slide 3**. We reported sales of $138 million, a 2% increase over last year’s third quarter. Our Hydraulics segment was the primary driver of the growth. Organic sales of our two segments, excluding currency, grew 1% this quarter. Organic sales of our Hydraulics segment grew 4%, while sales in our Electronics segment contracted by 11%, both excluding the effects of changes in foreign exchange rates. As expected, currency had an unfavorable impact during the quarter.

Despite the macroeconomic backdrop, overall we are pleased with the consolidated revenue and the quality of earnings generated this quarter. Tricia will provide more details on each segment's performance.

Turning to the bottom line, we reported $12.8 million of net income, a 10% increase over the prior year. On a non-GAAP cash net income basis, that represents $19.5 million or $0.61 per share. Adjusted EBITDA was $32.6 million, or 23.6% of sales.

Referring to the balance sheet and our leverage, we are very pleased with our cash generation this quarter. We realized free cash flow in excess of 15% of sales for the quarter, bringing us up to 10% for the year-to-date period on an adjusted basis, which is our target level. During the quarter, we also reduced debt by nearly $27 million. We closed the quarter with a 2.3 times net debt to adjusted EBITDA ratio, and we continue to work towards our goal of less than 2 times, which we anticipate achieving in mid-2020.

Please turn to **Slide 4** and I'll provide a business summary for the third quarter of 2019. Our Hydraulics segment benefited from a solid backlog going into the quarter, driving organic growth. However, our orders certainly felt the impact of weakening markets around the globe. To the contrary, in China, specifically, we are seeing relatively strong demand in renewable energy applications. Sales in our Electronics segment continue to be impacted by softness in the recreational and oil and gas markets, as well as the impact of the customer contracts that we renegotiated earlier in the year. Recall, we did that to be able to offer our products to a broader customer base without exclusivity constraints. We have been actively promoting those products and, as we previously indicated, we have multiple customers that have contractually committed to using these products for model year rollouts beginning in mid-to-late 2021. We expect that the long-term opportunity will be significantly larger than we would have realized under the original customer contract.

In the meantime, we have narrowed our focus on costs, cash flow and profitability. We created a more flexible cost structure to be able to make adjustments in the event of ongoing economic softness. Our Electronics segment has once again driven sequential gross margin expansion and maintained operating margins above 21%, despite lower revenue. Our Hydraulics segment first reduced discretionary spending and then initiated an early retirement program and a global organizational restructuring program. These initiatives lower the overall cost base and better align the talent of the global organization with the future growth strategy. We anticipate annual cost savings of $3 million to $3.5 million as a result of the restructuring programs, with approximately $600,000 of savings to be realized in the fourth quarter of this year.

As previously noted, the constraints realized last quarter pertaining to the impact of sales mix of certain CVT products continued this quarter. We had capacity constraints related to specific product families as well as reserve capacity in other product families. This shift in mix impacted our pace of output and margin profile. Accordingly, the revenue and profitability realized by that operation was lower than it would have been without those constraints. As we look forward to the fourth quarter, we expect the mix issues to continue and they're reflected in our updated guidance.

The engineering center of excellence in our third Sarasota facility is progressing as expected. As a reminder, it will house our global CVT research and development activities as well as certain administrative and operating activities, and is expected to be completed near the end of the first quarter of 2020.

I'm also pleased to report that our new facility in China, near Shanghai, continues to ramp up its production to service that market. As previously noted, initially, this factory is performing assembly and testing for a selected range of products sold in the region. Over the next two years, we plan to further ramp up the value added manufacturing within the facility, still for our regional customers, ultimately bringing complete cartridge valve production capability to the APAC region. This strategic project strengthens our “in the region, for the region” initiative, in support of demand in the growing China market, where we continue to make market share gains. This new capacity is complementary to our facility in South Korea, which we expanded last year.

I also want to emphasize that, despite the softening macroeconomic climate, we continue to execute our Vision 2025 strategic plan to achieve global technology leadership in the industrial goods sector, with critical mass exceeding $1 billion in sales, while maintaining superior profitability and financial strength.

With that overview, I will now turn the call over to Tricia to review the financial results for the third quarter and first nine months of 2019 in a bit more detail.

Tricia L. Fulton: Thank you, Wolfgang, and good morning, everyone.

Let's begin on **Slide 6** with the review of our third quarter consolidated results. Sales were up $2.2 million, or 2%, compared with last year's quarter. Our Hydraulics segment drove that growth. Acquisition revenue was $3.9 million, representing CFP's July revenue only, since the acquisition anniversary'd on August 1st. Our organic business sales grew 1% excluding the impact of changes in currency rates. Currency more than offset the growth, with a $2.5 million unfavorable impact.

I will now touch on sales by region which are designated here in the sales bar charts on the left. During the 2019 third quarter, APAC realized year-over-year growth of 12%, while Americas grew 2%, and the EMEA market declined by 9%. Sales to the Americas, EMEA and APAC regions were 49%, 25% and 26% of the consolidated total, respectively, in the third quarter.

Regarding profitability, our consolidated adjusted EBITDA margin declined 120 basis points, but remained strong at 23.6%. Turning to the bottom line, non-GAAP cash earnings per share were $0.61, down $0.01 compared with last year's third quarter. The adjustments to arrive at non-GAAP cash earnings consist of acquisition-related amortization of intangible assets, one-time restructuring costs and an intangible asset disposal. Last year's quarter also included acquisition-related amortization of intangible assets and amortization of acquisition-related inventory step-up. These items are reflected in the reconciliation tables in the back of the slide deck and release.

Please turn to **Slide 7** for a review of our Hydraulics segment's third quarter operating results.

Consistent with prior periods, I want to point out that acquisition-related costs, including amortization, are not included in our operating segment numbers. They are accumulated in our Corporate and Other segment reported in the tables at the back of our earnings release and slides.

Sales for the Hydraulics segment grew 6%. On an organic basis, sales increased $4.4 million, or 4%, excluding the impact of currency exchange rates which had a $2.3 million unfavorable impact.

From a geographic perspective, excluding the effects of currency, we saw 13% year-over-year growth for the quarter in the Americas region, 3% growth in APAC, and a 4% decline in the EMEA market. Gross profit was flat for the quarter and gross margin contracted by 2.1 percentage points. The gross margin contracted due to unfavorable product mix and foreign currency, partially offset by improvements from net price increases.

Hydraulics segment operating income decreased $4.8 million to $17.9 million. The decrease was almost entirely attributable to $4.4 million of one-time costs. These consisted of $1.7 million of restructuring charges for early retirement and severance related to organizational restructuring, as well as a $2.7 million loss on the disposal of an intangible asset from the termination of a technology licensing agreement.

Please turn to **Slide 8** for a review of our Electronics segment third quarter operating results. Revenue was down 12 % compared with the third quarter of last year. The decrease was impacted by softer demand in the recreational and oil and gas end markets, as well as the continued impact of the customer contracts that we renegotiated in the first quarter, allowing us to offer all products to a broader, global and more diversified customer base.

Third quarter gross margin was 46.4%, reflecting sequential improvement over the first two quarters of this year. Also, it was relatively consistent with the strong 46.5% margin in the prior year's quarter, as cost management efforts which resulted in production efficiencies drove the performance. Operating margin in the third quarter improved to 21.4% of sales, a 160-basis-point expansion, emphasizing the result of cost management efforts despite the lower revenue level.

Please turn to **Slide 9** for a review of our year-to-date consolidated results. Sales were up 16% over the same period of 2018. Faster and CFP contributed $65.5 million of acquisition revenue; and our organic sales grew about $300,000, excluding the impact of changes in currency rates which had a $6.4 million unfavorable impact on the consolidated sales of our organic businesses. For the first nine months of 2019, sales to the Americas, EMEA and APAC regions were 47%, 27% and 26% of the consolidated total, respectively.

Regarding profitability, consolidated adjusted EBITDA of $102 million increased 11% compared to the same period last year. Non-GAAP cash earnings per share were $1.89, up 8% over last year's year-to-date period.

Please turn to **Slide 10** for a year-to-date review of our Hydraulics segment operating results. Sales for the Hydraulics segment grew 26% compared with the 2018 period. The growth included $65.5 million of acquisition revenue contributed by Faster and CFP, and 4% organic growth, excluding the $5.9 million impact of unfavorable changes in foreign currency.

Gross profit increased by 22% in the first nine months of 2019. The significant increase results primarily from acquisitions, offset by CFP's integrator oriented business model and the impact of changes in product mix. The same drivers apply to Hydraulics' operating income, which increased 7% to $65.8 million. SEA included $11.3 million of incremental costs for the acquisitions. Additionally, the $4.4 million of one-time unusual items in the current quarter, which we already discussed, unfavorably impacted the year-to-date operating income.

Please turn to **Slide 11** for a year-to-date review of our Electronics segment operating results. Sales for the Electronics segment decreased 11% compared with the 2018 period. The decline was primarily due to the softer demand in end markets, the renegotiated customer contract, and timing of model year rollouts. The significant improvement in gross and operating margins are primarily the result of cost management efforts which drove production efficiencies. Despite the lower revenue, gross margin increased by 260 basis points to 46%, and operating margin increased by 130 basis points to 21.5%.

Please turn to **Slide 12** for a review of our cash flow and capitalization. In the first nine months, we generated $61.6 million of adjusted cash from operating activities and $42 million of adjusted free cash flow, both of which reflect significant improvements over the comparable period of 2018. Our strong third quarter performance brings our year-to-date results in line with our 10% free cash flow target.

Our 2019 year-to-date CapEx was $19.6 million, up from $18.7 million in the year-to-date period of 2018. As planned, the funding was primarily for manufacturing technology enhancements including equipment for completion of our CVT manufacturing consolidation project in Sarasota, machinery and leasehold improvement for our new China facility, equipment for our new CVT engineering center of excellence, and also for the addition of the Faster business. Capital expenditures are now estimated to be between $25 million and $28 million for 2019.

Regarding capitalization, we reduced our debt by nearly $27 million in the third quarter. We finished the quarter with our net debt to adjusted EBITDA down to 2.3 times. With our strong cash flow profile, we are focused on getting that down below 2 times, which we expect to achieve in mid-year 2020.

Wolfgang, I'd like to turn it back to you for your perspective on outlook and our 2019 guidance before we open the lines for Q&A.

Wolfgang H. Dangel: Thanks, Tricia.

Please turn to **Slide 14**. Several of the macro economic factors that impact our outlook have weakened over the past quarter. Most notably, these pertain to the US-China trade war, the future of Brexit, and growing anxiety in the Middle East. We believe that uncertainty is slowing economic activity, which is affecting most of our end markets and geographies to varying degrees.

Most of our end markets, including recreational and material handling, European agriculture, and oil and gas in the Americas have further softened. As noted last quarter, the construction equipment market in East Asia continues to weaken as well. Leading US indicators suggest that we are in a slowing growth phase. But the good news is that economic sources that we track continue to predict a soft landing.

Around the world, nearly all major global economies are already experiencing either a slowdown of growth or negative growth. Specifically, Western Europe is in a mild recession and economic growth in China has decelerated. Again, the good news is that, similar to the US, all global economies are currently expected to recover in the second half of 2020.

In accordance with our Vision 2025 plan, we expect to outpace macroeconomic growth over the long-term. This is being driven by the investments we have been making to expand our coverage in the field, increasing and broadening relationships with OEMs, penetrating regions where we have whitespace, and continuing to introduce new and innovative products and solutions. Further, the actions we have taken to broaden from our traditional end markets into more diversified end markets expand our abilities to successfully weather economic cycles.

Please turn to **Slide 15** for our thoughts regarding our outlook for Helios for the remainder of 2019. In the overall macroeconomic environment, oil and gas, agriculture, recreational, construction in the APAC region and material handling end markets are softening further. The current climate has caused us to temper our expectations for the remainder of the year. While we have adjusted our cost structure, the lower revenue will impact our margins and bottom line.

We have selectively reduced costs as we are continuing to invest in innovative manufacturing technologies and market-leading new products. These investments are critical to achieve our long-term strategic revenue and profitability goals and position us well when our end markets recover.

Referring to our Hydraulics segment, demand is softening and CVT product mix issues will continue to unfavorably impact the pace of output. Nevertheless, fourth quarter sales will be buffered by our existing backlog. Accordingly, we are lowering our sales guidance for the Hydraulics segment. Our outlook for our Electronics segment remains about the same. Therefore, we modestly adjusted and tightened our Electronics segment revenue guidance.

From an overall perspective, while we will realize the benefits of our restructuring initiatives and other cost management efforts, the lower revenue guidance results in a change to our EPS and adjusted EBITDA margin.

Please proceed to **Slide 16** where we provided our updated guidance for 2019, reducing our consolidated revenue guidance by $15 million to $20 million and tightening the ranges for both segments accordingly. Overall, this amounts to about a 3% reduction from our previous guidance. Our updated revenue expectation indicates 8% to 9% consolidated revenue growth over 2018.

At these adjusted revenue levels, our GAAP EPS is now expected to be between $1.70 and $1.75. Our non-GAAP cash EPS is expected to be between $2.24 and $2.29. Finally, our adjusted EBITDA margin, while lowered by about 115 basis points, is expected to remain very strong between 22.4% and 22.8%.

We remain committed to investing for long-term profitable growth throughout the business cycle to outpace the market as we work diligently towards our Vision 2025 goals.

Now, let's open up the lines for Q&A.

Operator: Thank you. At this time, we will conduct a question-and-answer session. [Operator Instructions] The first question is from the line of Nathan Jones from Stifel. Please go ahead.

Nathan Jones: Good morning, everyone.

Wolfgang H. Dangel: Good morning, Nathan.

Tricia L. Fulton: Good morning, Nathan.

Nathan Jones: I'd like to start in Hydraulics. There are a few moving pieces here. I think you're probably shipping some past due backlog in Americas that probably contributed to the organic revenue there being up 13%. You talked about some capacity constraints in some products which probably was a headwind to revenue there. Maybe you could just give us a little more color on the impact of those different puts and takes on revenue during the quarter and how you see that progressing going forward?

Wolfgang H. Dangel: Sure, Nathan. It's exactly as you said, there are a couple of moving pieces. First of all, we still have elevated backlog which we pointed out during earlier calls, in Q1 and Q2. So without question, Hydraulics sales in the third quarter were strong because we could tap into that backlog. However, that backlog is now depleting and that has an impact on the adjustments we made for guidance.

With regard to the capacity constraints, as I pointed out on numerous occasions, we still want to ramp up the capacity in order to be prepared for the upswing in the future and we consistently stick to that strategy. But we have idle capacity in the larger volume type of product families and there are some fixed costs that we cannot cover right now. And, by the way, that makes full sense because this is mainly tied to OEM businesses and, as soon as the OEM market starts to soften, you see orders tapering down there. But you're quite right, revenue came in stronger in Q3 than we expected and the backlog helped us tremendously there.

Nathan Jones: So, how many more quarters do you think you're going to get a tailwind from this – from the working off of this backlog going forward? Do you get some more help in Q4 but it's gone by the end of the year? Does it last into the first half of next year?

Wolfgang H. Dangel: Well, we are definitely going to see some tailwind in Q4 but that, of course, strongly depends on the orders that we are going to see. If the orders soften further, we will dig deeper into the backlog. Based on the current assumptions, I think we'll see a tailwind with regard to the backlog in Q4 and partly in Q1 2020 as well.

Nathan Jones: Given that Parker Hannifin is a competitor of yours in this space, if you could give guidance through the middle of 2020, are you expecting softness to remain in demand through mid-2020? Do you concur with that outlook and do you need to take further cost actions in response to that demand outlook?

Wolfgang H. Dangel: I would say that's pretty much in line with what we are seeing. There is no question, there is softening taking place and I think it's prudent to assume that it will occur in Q1 and in Q2 as well. Nevertheless, as I indicated earlier on, we still believe there is going to be a soft landing and we'll see some positive signs for the latter half of 2020.

Nathan Jones: Does that soft landing assumption mean that you're not going to take much more in the way of costs out of the business at this point?

Wolfgang H. Dangel: Well, we took some action relatively early as you saw with some of the restructuring that has taken place and with the early retirement program. Nevertheless, we want to be cognizant and we have identified opportunities in other areas. So if matters soften more than anticipated, we could tap into some of the other opportunities that we have identified already at this stage. Having said all that, we also want to be careful, Nathan. As I pointed out we can prepare for the upswing already because we know the industrial businesses turn very fast and it's the very early phase of the turn where we can gain market share. So, we also want to make sure that we maintain the structure in place so that we can take advantage of such a turn to be expected in the latter half of 2020 or no later than 2021.

Nathan Jones: Thanks very much for the color. I'll pass it on.

Wolfgang H. Dangel: You're welcome, Nathan.

Operator: Thank you. The next question is from the line of Jeff Hammond from KeyBanc Capital Markets. Please go ahead.

Jeffrey D. Hammond: Hey, good morning.

Tricia L. Fulton: Good morning.

Wolfgang H. Dangel: Good morning.

Jeffrey D. Hammond: So, it looks like fourth quarter implies a pretty sharp drop off, despite some of the backlog resiliency in Hydraulics. And I think pretty high decrementals, if I'm doing the math correctly. As you adjust your cost structure, how quickly can you normalize that decremental pressure?

Tricia L. Fulton: The decrementals that you see in Q4 do have some seasonality baked into them, so we would not expect to see that level of downside in 2020 as we roll into Q1. We would expect to see those decrementals more normalized to 40-ish percent. I think if you do the calculation, we're at about 60% in Q4; but again, that's related more to seasonality.

Jeffrey D. Hammond: Okay. And then Electronics, it sounds like you were talking about sales cycles are ramping slower, and I think you were originally talking about a snapback in growth as you adjust away from the one customer to more broad customers. But how are you thinking about that ramp in the growth rate into 2020, as that dynamic plays out?

Wolfgang H. Dangel: First of all, we are progressing right now exactly as we had anticipated during the course of Q2 and also in Q1 when we made the decision to tackle the dissolution of these contractual obligations that we had in place. And, as I pointed out, we are in very intense contact talks with a number of customers in different geographies that will buy these products and services down the road. Now, if the end markets soften, the ramp-up could be a little bit slower than originally anticipated. We are very hopeful, at least for 2021 and beyond, because we see very positive signs on the horizon, not just for these products and services that result from the dissolution of the contractual obligations, but also the other activities that we have ongoing with OEMs indicates a pretty strong tailwind for 2021 if we look at the projected statements of indication from them.

Tricia L. Fulton: And the out years, too. We have activities going on already for 2022 and 2023.

Jeffrey D. Hammond: Okay. Great. And then maybe given the order softness, can you comment on October? And then on the acquisition pipeline, certainly recessions create opportunities so what's your management capacity to start looking at external growth again as we move away from the Faster and CFP integrations? Thanks.

Wolfgang H. Dangel: With regard to the first point, in October, we saw what we expected to see, so no surprises at all. I think order rates were in line with what we expected at the end of Q3. With regard to the second question, regarding acquisitions, that's a completely separate process as I have always pointed out. We continue doing our homework, independent of where we are in the economic cycle. We are not overly opportunistic here where we want to make an acquisition in a downturn because we believe the multiples are lower. First of all, we only acquire first-class companies. So they are not necessarily forced to sell during a down cycle, because they could wait that out. The process is ongoing. We are slicing and dicing the different technology fields because we want to be prepared for the right point in time down the road.

Jeffrey D. Hammond: Okay. Thanks a lot.

Wolfgang H. Dangel: You're welcome.

Operator: Thank you. The next question is from the line of Brian Drab from William Blair. Please go ahead.

Brian Drab: Hi. Good morning. Thanks for taking my questions.

Wolfgang H. Dangel: Sure, Brian.

Brian Drab: What is the capacity utilization right now in the CVT business?

Wolfgang Helmut Dangel: Well, it depends on the area that you are looking at, Brian. As I pointed out, for the large volume, the series type of product families we have a utilization of about 40% to 50%. And then we still have capacity constraints in all the other areas. We are still ramping up capacity in those areas. But to answer this question, this also depends on the shift models that you apply, and it's relatively difficult to deploy third-shift coverage because of the constraints we have in the labor market. So this is a pretty complicated question to look at, but from a high level perspective to give you an accurate answer, I would say, it's about 40% in the higher volume type of product families, and it's pretty much at capacity in the lower volume.

Brian Drab: Okay. And the 40% to 50% in the large volume contemplates that 100% would be a three-shift model or a two-shift model or could you just clarify that?

Wolfgang H. Dangel: It would be a two-shift model, and then with the possibility to expand it even to two-and-a-half shifts or three shifts. And that type of the business, Brian, as I say, is more tied to classic OEM business. As soon as the OEMs are picking up, we would expect to see better utilization of installed capacity and fixed costs.

Brian Drab: Okay. Got it. And then in your Electronics business, one of the issues has been that you're in between some customer platform rollouts. Can you talk in a little more detail regarding what visibility you have to 2020 in some of those platform rollouts, and could that drive growth in Electronics in 2020, despite a continuing challenging environment, at least in the first half of the year?

Wolfgang H. Dangel: So as you know, Brian, our business in Electronics is about 50% OEM-driven and 50%-channel driven, roughly. With the OEMs, we have more visibility. We already have visibility into 2020. I can happily say here that if we look at all the anticipated product launches for 2020, that they are still scheduled, there is no push out. However, as I always point out, the ramp-up curve could be slower. So there could be lower volumes during the ramp-up. But all the originally scheduled product launches for 2020 are still in place.

Brian Drab: And is there any way to quantify how many product launches in 2020 versus 2019, just so we get a sense for how much of a tailwind that could be?

Wolfgang H. Dangel: We typically say it's around 10 launches, however, the magnitude of individual launches can differ from year to year. But to give you a ballpark number, I would say that it will probably be around 10 product launches in 2020.

Brian Drab: Versus how many in 2019?

Wolfgang H. Dangel: It's pretty much the same number. It varies between 8 and 12 launches; certain times may be a little bit higher, but 10 is a good number. And we will launch new products irrespective of what the economy will do. The only variable is the volume and ramp-up of the launches.

Tricia L. Fulton: And that's dependent on the OEM and the specific vehicle that those are going on to.

Brian Drab: Okay. So just to summarize, to make sure I understand, it's not really the number of model year rollouts. It's the size and magnitude of some of these model year rollouts that are just smaller this year?

Wolfgang H. Dangel: Yes.

Brian Drab: Okay. I'll pass it on. Thank you very much.

Tricia L. Fulton: Thank you.

Operator: Thank you. The next question is from the line of Joe Mondillo from Sidoti & Company. Please go ahead.

Joe L. Mondillo: Good morning, everyone.

Wolfgang H. Dangel: Good morning, Joe.

Tricia L. Fulton: Hi, Joe.

Joe L. Mondillo: Just in terms of the CVT capacity issues that you had, you were dealing with running up against capacity and not having enough capacity four, five quarters ago and you did a lot to reorganize the operations down there. I'm just curious was that a positive or a negative as we go into a lower volume time period. Was your cost structure expanded by doing what you did in trying to improve capacity? I know a lot of it was reorganizing and improving efficiencies to try to open up that capacity but I'm just curious, going from a time period where you didn't have enough capacity and you were trying to expand capacity to now we're seeing lower volumes. How has that changed your cost structure?

Wolfgang H. Dangel: I think from a cost structure perspective, this has no impact. If you go back, and if I may refresh your memory here, this was a necessity. It was a necessity to install additional capacity because we have been seeing successes in the marketplace that converted into orders at the end of the day. So once the economy turned, I think it was the third quarter of 2016, or September 2016, when we saw the first uptick in orders, we were probably around 10% below capacity, and we started to ramp up capacity immediately.

This has been a consistent effort since the fourth quarter of 2016. If you look at absolute numbers, and I don't want to give you specific numbers, but I can give you percentages, what we wanted to accomplish in alignment with Vision 2025 for that type of business, our plan back in 2015 was to quadruple the business by 2025. And that would require that, at the beginning of 2020 or at the end of 2019, to have capacity installed that is about twice the capacity of 2015. We are right on target to accomplishing that. If you look at the installed capacity we now have, or will have by the end of this year, it is about twice the capacity we had five years ago. So we are in line with that.

Now, you have to deal with product mix and economic cycles. And as I pointed out before, Joe, we wanted to get ahead of the curve here so that when the next upswing comes we really can take market share. Because if you go back and look at fourth quarter 2016, you look at all of 2017 and all of 2018, and now the first three quarters of 2019, then you see that our Hydraulics business has clearly outpaced revenue growth of the peer group.

Nevertheless, I always say and I criticize ourselves, we could have done even more if we had the capacity in place back in 2016 and 2017. So in order to get ahead of the curve that's why we are doing it. I don't want to get caught up in the same situation again as we were in the last two years of not having enough idle capacity available. We will fill it down the road in the context of Vision 2025 that will quadruple the sales volume of 2015.

Tricia L. Fulton: I would add that, from a cost structure perspective, what you're seeing now in some of the margin pressures is related to the fact that we aren't fully utilizing the capacity on the high-volume product line and assembly line. So once we're able to fully utilize that, in conjunction with being at near full capacity on the lower volume product use cells, I think we'll get tremendous leverage on the fixed costs of that business.

Joe L. Mondillo: Okay. Great. Thanks. I appreciate that. Also I wanted to ask about SG&A costs. At the run rates that we saw in the third quarter, are you doing things to restructure that going into the fourth quarter or were things mainly in place at the beginning of the third quarter, knowing the headwinds and seeing the way the markets were shifting?

Tricia L. Fulton: The restructuring that we did really didn't have a large impact other than the $1.7 million in cost in Q3. We won't start to see the benefits of that until Q4. We do expect to see about $600,000 in total savings in Q4, and about 25% of that is related to SEA. And when you look at the numbers that we put out for cost savings of $3 million to $3.5 million for 2020, about one third of that is SEA for 2020.

Joe L. Mondillo: Okay. And then just going back to the Electronics business, I'm not sure if I missed a little bit of your prepared commentary, but excluding these purposeful reductions in certain customer platforms so you can expand your opportunities, excluding that, what is the true growth that you've been seeing in Electronics?

Wolfgang H. Dangel: I think if I understand your question correctly, if you look at the decline, you can say half of it is economy, half of it is dissolution of the contractual obligation.

Joe L. Mondillo: Okay. And the status of those end markets in that business, specifically on your non-core recreational, are you seeing a further deterioration in those markets or have things been stable for the last few months or how would you characterize those recreational end markets?

Wolfgang H. Dangel: Things have probably softened a little bit, but those markets are not that bad. But things have definitely softened a bit more over the last two quarters.

Joe L. Mondillo: Okay. I think that's all. That wraps it up for me. Thanks a lot.

Wolfgang H. Dangel: You're welcome, Joe.

Operator: Thank you. The next question is from the line of Jon Braatz from Kansas City Capital. Please go ahead.

Jon Braatz: Good morning, Wolfgang, Tricia.

Wolfgang H. Dangel: Good morning, Jon.

Jon Braatz: Wolfgang, I've been listening to a number of conference calls over the past week and a half. I guess my question is, did you see a significant deceleration of order rates in late August, early September? Did you see some significant weakness late in the quarter as opposed to what you may have seen earlier in the quarter?

Wolfgang H. Dangel: Yes. I think that's a valid statement, Jon. If I breakdown the third quarter and look at the individual months, I think quite significant weakness set in September, the last of the quarter. So your statement is true.

Jon Braatz: Okay. How pervasive was that across your customer base? Was that across all the markets?

Wolfgang H. Dangel: Yes. As I pointed out earlier on, Jon, we have seen that across almost all the end markets. Maybe the only disclaimer I would put on is that we've seen it with a little bit more severity in Europe from a geographical perspective. And then we had some exceptions, as I pointed out, if I look at renewable energy in China that has remained reasonably solid. But other than that, we've seen it across the board and probably a little bit more severe in Europe than in other geographies.

Jon Braatz: Okay. Second question, you called out the oil and gas market for causing a little bit of weakness in the Electronics segment, and I knew you had some exposure there, but how significant is the exposure you have in the oil and gas market?

Wolfgang H. Dangel: I think if you look at all of Helios, we have about 8% of revenue tied to the oil and gas market.

Jon Braatz: Okay.

Tricia L. Fulton: Electronics separately is probably closer to 15%.

Wolfgang H. Dangel: Yes, it is a little bit higher. Electronics itself is a bit higher. But across the company, it's about 8%. We did an analysis last year. Those were the numbers and I don't think they've changed a lot this year.

Jon Braatz: Okay. Thank you very much.

Tricia L. Fulton: Thank you.

Wolfgang H. Dangel: You're welcome, Jon.

Operator: Thank you very much. The next question is from the line of Josh Pokrzywinski from Morgan Stanley. Please go ahead.

Joshua Charles Pokrzywinski: Hi good morning, Wolfgang. Good morning, Tricia.

Wolfgang H. Dangel: Good morning, Josh.

Joshua Charles Pokrzywinski: I'm not sure if you touched on this directly or not, or if you have bounced on the edges of it. Wolfgang, could you just tell us either what book-to-bill was in the quarter or how much backlog is down? Because this whole element of how long this backlog can really stretch you is a little tougher to calibrate.

Wolfgang H. Dangel: So, if you can sense based on the statements we've been making, it's depleted quite a bit in the third quarter. But I reiterate what I said earlier on, we'll still tap into that in Q4 and Q1. It still depends a little bit on the order intake that we expect. So we have been a little bit cautious here, but overall, we are still expecting softening to continue in Q4 and the first half of 2020. So, we are depleting the backlog, but there is still backlog left. I would say, I feel comfortable seeing possibilities to tap into good backlog for the next two quarters.

Joshua Charles Pokrzywinski: Okay. And then just as you talk about preparing for the next up cycle and I can understand being sensitive to being caught short on capacity as what happened in 2015, 2016. But if I'm reading your commentary right, not really expecting markets to turn until maybe second half of next year, what is it that you're doing nine months, maybe 12 months ahead of an expansion that would be necessary that far out in terms of preparedness? What does that exactly look like either from a capacity perspective, a channel perspective, new products? And maybe just go down the list of what that 9-month or 12-month preparedness would entail?

Wolfgang H. Dangel: Yes, very good question. As I pointed out earlier on, the focus has got to be on cash here, working capital, cash flow and profitability. I think if you go through this type of interim period between cycles, this is all about focusing on cash flow and preparing for the upswing. I pointed out earlier on, Josh, we still have identified areas, if the softening would further deteriorate, that we can tap into those as well, so I think I would describe this time now as striking the right balance between protecting bottom line, optimizing cash flow and at the same time preparing for the upswing and being ready.

Joshua Charles Pokrzywinski: Yeah, I guess just specifically on that upswing side, it doesn't sound like you're building inventory, but what exactly does that involve farther in advance? I can understand managing through the downturn, that totally makes sense. So, I'm just having a harder time conceptualizing what you're preparing for the upswing right now.

Wolfgang H. Dangel: I think as far as the upswing is concerned, that means at the end of the day preparing for the front end of the business. Our sales and marketing teams need to be even more active than during the boom times, because now is the time when our customers have time to listen to us for new technical solutions, where we can discuss the next generation of machine design. So our sales force is expected to be extremely active. They've got to be on their toes all the time because now customers around the world have time to sit down with us and discuss new and innovative technical solutions.

Tricia L. Fulton: In our businesses that are more OEM focused, we're already sitting at the table from an R&D perspective and looking at what products are going to be needed going forward. So, I think we're in a good position at this point with those projects that are already underway for when the economy turns around, then those can turn into products that are sellable.

Joshua Charles Pokrzywinski: Got it. That's helpful. And then just lastly on some of the contract changes, customer changes, either in the Electronics side, is there any scope to reevaluate what you do in Hydraulics either from a customer perspective, distribution? I think you have a much more technical distribution base. Is there any interest in perhaps broadening that? Just speak to the opportunity of applying that same logic from Electronics into Hydraulics.

Wolfgang H. Dangel: Yes, we are still trying to spread our wings in geographies where we have little or no coverage, so we are still finding channel partners in certain parts of Southeast Asia, for example. Adding channel partners and getting better coverage of the global marketplace is something that we continue to do on an ongoing basis.

Tricia L. Fulton: And with regard to our synergy projects, I think we're doing a good job of identifying how we can cross-sell between the channels within each of the companies as well that are bringing new opportunities.

Joshua Charles Pokrzywinski: Thanks. That's helpful. I'll leave it there.

Tricia L. Fulton: Thank you.

Operator: Thank you very much. [Operator Instructions]

Karen L. Howard: Zaid, it looks like the time is up, and we're ready to end the call. So I'll ask you, Wolfgang, to provide closing comments.

Operator: Sure.

Wolfgang H. Dangel: Thank you for your interest in Helios Technologies and for your participation this morning. I also thank all of the hardworking Helios employees who are driving these results. We look forward to updating all of you on our fourth quarter and full-year 2019 results in February. Thanks again, thanks a lot and have a great day.

Operator: Thank you very much, members of management. Participants, this concludes today's conference call and you may disconnect your lines at this time. Thank you for your participation.